Thirty-Second Board Meeting

OIG Status Update on Agreed Management Actions
STATUS UPDATE FROM THE OFFICE OF THE INSPECTOR GENERAL ON AGREED MANAGEMENT ACTIONS

Purpose:

1. This paper provides a status update on the implementation of recommendations and Agreed Management Actions from previous reports of the Office of the Inspector General. This is revision 1 of the document which includes updated information in section 1.2.
Board Report
Office of the Inspector General Status Update
Agreed Management Actions

GF-B32-07 Revision 1
October 2014
Geneva, Switzerland
Executive Summary

Throughout 2014 the Office of the Inspector General (OIG) has placed greater emphasis on ensuring that action is taken by the Secretariat on known issues resulting from audit and investigation work both at a country-specific and Secretariat control level.

Fully implemented Agreed Management Actions Engagement Model

Under the new philosophy of Agreed Management Actions (AMAs), agreement is considered reached when the OIG accepts that the solution addresses the root cause and lessens the risk of reoccurrence and when the Secretariat acknowledges that implementation is necessary and achievable within a realistic time frame. Accountability for completion of AMAs is tracked and validated by the OIG using a dedicated web-based system which is also used by the Secretariat. Progress is routinely provided to the Management Executive Committee (MEC) and formally reported to the Audit & Ethics Committee and the Board. Further details on why this model was developed and how it works are provided in Annex 1.

Material Issues (Section 1.1)

Over the last year the OIG has been tracking five key control issues arising from previous audit and investigations: combined assurance, accountability framework, recoveries, grant closures and document retention / record keeping. For two of those issues (Combined Assurance and Recoveries) we have performed detailed follow up work on progress and over time will do the same for the remaining three. We are pleased to report the progress that has been made with regards to Combined Assurance and a separate presentation from the Secretariat will be shared with the Board. Unfortunately progress with regards to recoveries has been slow.

Open & Overdue Agreed Management Actions (Section 1.2)

Implementation of Agreed Management Actions has seen good progress during the last 5 months. The total actions implemented by the Secretariat have increased 91% during the period from July to October, representing a total of 85 newly implemented AMAs. Similar good progress has been seen with overdue items.

OIG Validation of Implemented Actions (Section 1.3, Table 3)

The increase in implemented agreed actions by the Secretariat has led to an increased pipeline of AMAs awaiting validation and closure by the OIG. From June through to 30 October 2014, we have validated and closed 84 AMAs with 94 still awaiting validation. The OIG is dedicated to properly examining and closing all implemented AMAs and will continue to focus on validation going forward. This is reflected in our 2015 work plans.
1.1 Status of Material Issues

As identified at the beginning of 2014, the OIG is tracking the five key control issues arising from previous audit and investigations. The OIG has performed a detailed follow up on progress on Recoveries and has been heavily involved in the Combined Assurance discussions. The MEC have provided updates on the remaining three:

1. Recoveries

The OIG has completed a follow up analysis of all cases relating to OIG reports submitted to the Recoveries Committee (“RC”) since it started its work in October 2012. Based on our work we note the following:

- Minimal cash collections of outstanding recoveries have been made in 2014.
- Record keeping and tracking mechanisms at the Recoveries Committee level are basic, incomplete and non-standardized, increasing the risk of errors or misinterpretation and contributing to the lack of follow up.
- There is no formal tracking of non-OIG related recoveries, nor is there reporting to the Board of recovery activities, management adjustments or write-offs not stemming from OIG reports. This is linked to the wording of the Board decision on Losses and Recoveries, which only makes reference to OIG related recoveries.
- There is no procedure outlining the roles and responsibilities of the FISA department and the Recoveries Committee in exchanging information about recoveries. This is needed to ensure that recoverables are booked in a timely manner in the accounting records, and that there is no confusion or delay regarding the reporting of payments.

We believe these issues are symptomatic of an absence of a dedicated recoveries officer and a lack of prioritization of the issue at the Country Team level. The Secretariat is fully aware of these issues and we are pleased to report that they have budgeted for a full-time recoveries officer as part of the 2015 budget. In addition, the signing of new grants under the new funding model will be conditional upon resolution of recovery issues in the country, i.e., signature of a reimbursement protocol and, preferably, receipt of the first instalment. The OIG supports these proposed solutions and we will continue to monitor loss and recoveries progress and update the Audit and Ethics Committee and the Board as part of our material issues tracking.

2. Assurance Framework

A detailed presentation will be provided to the Board at the meeting.

3. Accountability Framework

MEC response:

“Risk Management has been liaising with responsible managers to clarify their roles & responsibilities and has obtained external resources that describe the characteristics of matrix organizations. A meeting was held with OIG, Risk Management and Human Resources to discuss the OIG overarching recommendation on improving accountability at the Secretariat. Risk Management has presented its observations and recommendations based on the work done to the Management Executive Committee on July 17th, and will discuss it with the relevant division and department heads with a view to come to an agreed set of improvement actions that can be implemented. Most of these actions will be integrated into the implementation of the outcomes of the Combined Assurance work, as that work stream has validated Risk Management’s observations and recommendations.”

4. Grant Closures

MEC response:
“At the time of the OIG’s audit, 50% of grants due for closure had not been closed. This represents a revised total of 242 grants which were not closed at the time of the OIG audit. The large majority of these (90% -- 224 grants) have now been financially closed and over 40% (102 grants) have been both financially and administratively closed, an increase of 27 grants, or 36% of the 75 grants closed as of the last AEC update in July 2014. This has been facilitated by operational policy changes to streamline the grant close process, including a simplified approach to closing long-outstanding grants, and continued support is being provided to fully close all grants despite competing priorities as more countries prepare to submit concept notes under the new funding model. Management committees such as the Recoveries Committee continue to review cases where issues need escalation.”

5. Document Retention and Record Management

MEC response:

“The Global Fund is currently developing a record-retention procedure to improve the organization and retention of key information. The procedure will establish retention schedules and archiving practices for records to address legal, regulatory, reporting and record-keeping needs. As part of the cross-divisional work to identify records and define retention periods, Grant Management has developed a list of key grant records and associated retention parameters. Each Division or Department has been asked to identify records relevant to their functional areas. A draft procedure document has been prepared by the Legal and Compliance Department and circulated among the cross-functional steering committee overseeing the project. Records identified by each Division or Department will be integrated, along with defined retention periods, into the records retention schedule during the first half of Q4 2014 that is being coordinated with migration of records onto an updated and supported Salesforce platform that is currently being rolled out. Documents and records on the platform will be fully integrated with grant management processes and tools.”

1.2 Open & Overdue Agreed Management Actions

AMAs are considered open once they are published within an OIG report. Upon completion of the AMA it can then be reported by the Secretariat as being implemented. If an AMA is not reported as fully implemented by their agreed to due date, they are considered overdue.

Below is the status of all AMAs (including newly published reports) as of 30 October 2014. Progress regarding recoveries-related actions is reported by the Secretariat to the Board through the Losses and Recoveries Report.

Overall, total open AMAs have dropped from 136 in July to 121 in September and to 109 in October (October includes 23 new AMAs from newly published reports).

Table 1: Total Open AMA (excluding recoveries)

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<td>Grant Management</td>
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<td>21</td>
<td>126</td>
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</table>

Overall total open AMAs that have become overdue have changed from 44 in July to 46 in September and to 39 in October.
Table 2: Total Open AMAs currently overdue (excluding recoveries)

*In September there were no overdue investigations AMAs due to the fact that no such dates were defined in legacy investigation reports; starting with the upload of legacy investigation data in the system, we have been working with the Secretariat to define appropriate due dates for investigations related actions. As part of defining individual due dates, the content of the investigation AMAs were also re-examined for relevance and consistency by the OIG and the Secretariat. As of October, all investigation and audit AMAs are included in the overdue numbers.

1.3 OIG Validation of Implemented Actions

In 2015, we budgeted specific resources in the Audit Unit to validate implemented AMAs, to ensure timely feedback and comprehensive review and support of the implementation progress.

Table 3: Total Implemented AMAs validated by OIG
Annex 1

Questions and answers about Agreed Management Actions

What is new?

In 2014 the OIG focused on implementing a new engagement philosophy. Historically, OIG engagements have ended with recommendations based on its findings. Now with the new philosophy of Agreed Management Actions (AMAs), the OIG and the Secretariat are responsible for addressing findings by producing, completing and validating agreed actions that address the issue’s root causes.

What is an agreed management action?

An Agreed Management Action is at the heart of what the OIG does. The real value of any audit or investigation is to ensure that action is taken to correct an identified problem, mitigate a particular risk or improve a process at the Global Fund. The action should not only fix the immediate problem; it should also find the root cause of the issue to prevent it from happening again. Agreed Management Actions have been standard practice in the private sector over the past decade. They have led to increased implementation and accountability in addressing known issues.

How are Agreed Management Actions different from recommendations?

The philosophy behind the AMA tracking is to drive accountability through the drafting, agreement, tracking, and validation of actions that address the issues found through the investigations and audits. These actions are focused not only on fixing immediate problems directly linked to the findings, but also addressing the root causes to prevent them from happening again across the Global Fund. The planning framework produces Agreed Management Actions that are specific, measureable, achievable, realistic and as timely as possible while remaining within the scope of intervention of the Global Fund.

This is a significant departure from the previous arrangements where the OIG issued recommendations as a result of its findings. While recommendations could be aspirational and far reaching, they did not involve a process by which the findings were analyzed by the Secretariat and the OIG teams to determine concrete remedial measures. Furthermore, being generally determined by the OIG alone, they lacked the level of accountability and precision that can be achieved through an agreement with management at the appropriate level, whether operational or managerial, to drive change and address the root causes of the findings.

What do we mean by ‘agreed’?

The Agreed Management Actions contained in the final version of an OIG report will be the result of a conversation which will have started some weeks before between the OIG and the Secretariat. In that conversation, the OIG and the Secretariat will have begun to analyze the root causes behind any issues in order to find the long-term solutions that correct or improve the underlying Global Fund process or system.

Agreement is reached when the OIG accepts that the solution addresses the root cause and lessens the risk of reoccurrence, and when the Secretariat acknowledges that implementation is necessary and achievable. When both parties agree, there is real ownership and both the OIG and the Secretariat have a vested interest in seeing the action through to implementation for the ultimate good of the organization.

Can the OIG maintain its independence while at the same time agreeing an action with the Secretariat?

The OIG’s independence is not compromised by AMAs or the process to create them. The process of agreement on remedial actions with the Secretariat is indicative of a more mature working relationship than of any threat to the OIG’s independence. If the Secretariat and the OIG do not agree on what action needs to be taken, more discussion takes place until an outcome is achieved which both satisfies the OIG that the risk has been mitigated and to which the Secretariat can commit.

The findings the OIG makes and reports on are also the product of an independent and objective process and are not impacted by this change.
What is a root cause?

Finding the root cause gives meaning to a phenomenon. In the same way that a doctor looks at the symptoms of a patient to produce a diagnosis and then treatment, an auditor or an investigator looks not only at what has happened but also why it has happened.

The OIG has been good at listing symptoms but not so strong on finding origins. One way to go deeper is to ask the three ‘whys’. For example: petty cash is missing from a drawer. Why is it missing? Because the drawer was unlocked. Why was the drawer unlocked? Because there was no clean desk policy. Why was there no clean desk policy? Because there was no proper system of office management etc.

Should Agreed Management Actions only look at root causes?

Agreed Management Actions will often have two layers: a first which mainly covers the symptoms and the urgency of the issue, for example, replacing a principal recipient, removing employees who abuse the grant agreement or recovering misused funds. This action will be designed more as a band-aid and will usually be implemented at the Country Team level. The second layer will look at the reason behind the wound, in other words, the systemic issue and the root cause. This will be implemented at the Management Executive Committee level.

Agreed Management Actions have to be “smart” rather than aspirational. There are limits to what the Global Fund can achieve in the countries in which it operates. Actions have to be smart in spirit, in other words, as specific, measurable, achievable, realistic and timely as possible but always within the scope of intervention of the Global Fund.

Who ultimately owns the agreed action?

The deeper the cause, the higher the decision-maker. Ultimate ownership of an agreed management action lies with a member of the Management Executive Committee. As the OIG is looking at the design of systems, the responsibility for improvements should lie with the designers themselves or those who have the means to change the design.

How are AMAs tracked?

All AMAs are documented and assigned to owners at the Management Executive Committee level. Those owners then assign the implementation to employees within their divisions. Conversely an OIG employee is assigned responsibility for validating the implementation of the AMA. The action is considered completed when it implemented by the Secretariat owner and subsequently validated by the OIG assignee.

Agreed actions will now be tracked at the OIG using a web-based software system called Team Central. Each action emanating from an audit or investigatory piece of work will be entered into the system and categorized, allowing the OIG to build up an intelligence database to be able to analyze trends and systemic problems facing the Global Fund.

The designated person at the Secretariat, responsible for putting in place the agreed action and the relevant OIG auditor or investigator, will monitor the progress of the implementation through Team Central and monthly meetings. The monthly meetings bring together tandems of OIG auditors and investigators with their Secretariat counterparts split by a region or function. This means that the specific agreed actions per region or function can be directly tracked by the relevant people. Once the remedial action has been put in place by the Secretariat, the OIG validates and then closes the action within three months.

How are AMAs reported on?

The OIG routinely reports on progress made in the completion of AMAs to the Management Executive Committee and formally reports to the Audit & Ethics Committee and the Board. Progress regarding recoveries-related actions is reported by the Secretariat to the Board through the Losses and Recoveries Report. In addition, the OIG will continue to validate progress on recoveries at appropriate junctures as part of our material issues tracking process.
## Agreed Management Actions Engagement Model

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>OIG</th>
<th>Global Fund Secretariat</th>
<th>Audit and Ethics Committee and Board</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stage 1</strong></td>
<td>Drafting agreed actions</td>
<td>OIG and Secretariat produce management actions to address symptoms and root causes of problems identified.</td>
<td>Agreement is reached when OIG satisfied action addresses cause and Secretariat acknowledges implementation is necessary and possible. Due dates and owners are identified.</td>
</tr>
<tr>
<td></td>
<td>Corrective actions agreed between OIG and Secretariat</td>
<td>Audit and Ethics Committee may provide feedback on report containing agreed action which OIG may consider. Board receives report 1 week before publication for info.</td>
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<tr>
<td><strong>Stage 2</strong></td>
<td>Agreed actions published</td>
<td>Report and agreed actions published on OIG website</td>
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<tr>
<td></td>
<td>Tracking implementation of agreed action</td>
<td>Tracking implementation of agreed action. OIG sends email alerts leading up to due date. Agreed action appears on web summary table</td>
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<tr>
<td></td>
<td>Referral to Sanctions Panel if relevant</td>
<td>Referral to Sanctions Panel if relevant. Secretariat owner starts implementing agreed actions. Local Fund Agent or 3rd party may be mandated by Secretariat to follow up on agreed actions. OIG consulted if mandates concerns a) recovering funds b) OIG findings.</td>
<td></td>
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<tr>
<td><strong>Stage 3</strong></td>
<td>Tracking and implementing (3 months)</td>
<td>Agreed action due</td>
<td></td>
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<tr>
<td></td>
<td>OIG managers check implementation of agreed actions and validate within 3 months. Secretariat proposes interim measure. OIG sends status report to Management Executive Committee on first Monday of each month.</td>
<td>Audit and Ethics Committee and Board receive update on implementation status of agreed actions in Progress reports.</td>
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<tr>
<td><strong>Stage 4</strong></td>
<td>Validating implementation</td>
<td>OIG Directors validate agreed action</td>
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<td>Once closed, agreed action stays on web summary table for 12 months.</td>
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<tr>
<td><strong>Stage 5</strong></td>
<td>Closure of agreed action</td>
<td>Agreed action closed</td>
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**The Global Fund**

To Fight AIDS, Tuberculosis and Malaria

Office of the Inspector General